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In Our Opinion...

The Newsletter of the AICPA Audit and Attest Standards Team

Vol. 22 No. 1

Winter 2006

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ED Revises Attestation Standard for Reporting on Internal Control

by Judith M. Sherinsky

The Auditing Standards Board has issued an exposure draft (ED) of a proposed Statement on Standards for Attestation Engagements (SSAE) that would supersede Chapter 5, "Reporting on an Entity's Internal Control Over Financial Reporting" (AT 501), of SSAE No. 10. An examination of internal control is designed to provide assurance regarding an entity's internal control over financial reporting—the process that culminates in the issuance of financial statements.

The ED, which bears the same title as existing AT 501, has been revised to incorporate the definitions of the terms *control deficiency*, *significant deficiency*, and *material weakness* used in Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*. In addition, the ED contains guidance from Auditing Standard No. 2 that is appropriate for examinations of the internal control of nonissuers and useful to regulated entities, such as financial institutions, insurance companies, and governmental entities.

As in Auditing Standard No. 2, the ED requires that an entity's financial statements be audited for a practitioner to examine the design and operating effectiveness of its internal

control. Unlike Auditing Standard No. 2, the ED permits the examination of internal control and the audit of the financial statements to be performed by two different CPAs. In those circumstances, the practitioner examining the entity's internal control must communicate with the auditor of the entity's financial statements to obtain information about any internal control related findings resulting from the audit.

One of the first steps in evaluating internal control over financial reporting is to identify the controls that should be tested. The ED states that a practitioner should obtain evidence about the effectiveness of controls for all relevant assertions related to all significant accounts and disclosures in the financial statements. "Significant accounts and disclosures" are those that are quantitatively material to the financial statements as well as those that are affected by qualitative factors that increase the risk of material misstatement. To assist practitioners in determining which controls should be tested, the ED contains examples of how a practitioner might determine whether an account or disclosure is significant. One example considers the need to test controls over relevant assertions related to an entity's accounting for land. In this example, the land account is quantitatively material to the entity's financial statements; however, certain qualitative factors decrease the risk of material misstatement. Another example illustrates why a practitioner needs to test controls over an account that is not quantitatively material, but is material in scope because of qualitative factors.

The ED states, "A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis." The difference between design effectiveness and operating effectiveness can be illustrated by a situation in which a company is in the process of hiring an employee to develop the fair values of unlisted investments that will be included in the entity's financial statements. To ensure that the company hires a qualified person, management:

- Establishes education and experience requirements for the position
- Asks an employee, who is knowledgeable about the subject matter, to interview the candidate
- Confirms the candidate's credentials.

These controls appear to be reasonably designed to achieve the objective—hiring an experienced and knowledgeable employee. However, even though these controls are effectively designed, they may not be operating effectively, as might be the case if the knowledgeable interviewer is called away from the office and asks a colleague, who is not knowledgeable about the subject matter, to interview the candidate.

An entity that has a material weakness in its internal control will receive an adverse opinion on the effectiveness of its internal control over financial reporting. Although judgment always is required when evaluating whether control deficiencies, individually or in combination, are material weaknesses; the ED includes a list of control deficiencies that ordinarily would be considered at least significant deficiencies, as well as a list of circumstances that should be regarded as at least a significant deficiency and a strong indicator of a material weakness.

In addition, an appendix to the ED contains a list of examples of circumstances that may be control deficiencies, significant deficiencies, or material weaknesses. One of the examples in that list is, "Inadequate design of internal control over the preparation of the financial statements being audited." This example has been the subject of discussion because many smaller businesses have deficiencies in either the design or operating effectiveness of their controls over the preparation of financial statements. The results of such deficiencies typically

necessitate that the auditor assist in drafting the financial statements, or perform various aspects of that task, such as drafting certain financial statements or the footnotes to the statements. If the entity does not remediate such deficiencies prior to the date of management's assertion, and the practitioner concludes that the circumstance represents a material weakness, the practitioner would issue an adverse opinion on the entity's internal control.

The task force that developed the ED received input from certain regulators who have expressed interest in using the standard, in part, in regulating the applicable entities. With their comments in mind, the task force included in the ED reporting guidance for engagements in which the scope of internal control is expanded, for example, engagements to examine the internal control of insured depository institutions subject to the internal control reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA).

A unique aspect of the ED is that it permits a practitioner to report on only the design effectiveness of an entity's internal control (not on operating effectiveness) which would address the needs of entities that are in the beginning stages of developing a system of internal control and have not yet implemented controls. In those circumstances, the entity's financial statements need not be audited.

Also, accompanying the ED is a document entitled "A Framework for Evaluating Control Exceptions and Deficiencies," designed to assist practitioners in applying the proposed standard by presenting a method for evaluating the significance of control exceptions and deficiencies. The document is not part of the proposed SSAE; however, the ASB is seeking input from readers regarding whether the document is helpful in applying the SSAE, and whether it should be included as a permanent appendix to the SSAE.

The closing date for comments on the ED is April 19, 2006. The ED can be viewed by going to: http://www.aicpa.org/members/div/auditstd/Internal_Control_Financial_Reporting.htm

Proposed SAS on Communication With Those Charged With Governance

by Ahava Goldman

In the wake of well-publicized audit failures and emerging best practices in corporate governance, there has been an increased expectation that auditors will openly and candidly communicate with those charged with governance regarding significant audit findings. At its January 2006 meeting, the ASB voted to ballot a draft of a proposed Statement on Auditing Standards (SAS), *The Auditor's Communication With Those Charged With Governance* (AU sec. 380), for issuance as an exposure draft. This proposed SAS establishes standards and provides guidance to an auditor on matters to be communicated with those charged with governance. The proposed SAS would replace SAS No. 61, *Communication With Audit Committees*, as amended.

In developing this exposure draft, the ASB considered the communication requirements in the exposure draft of the proposed International Standard on Auditing 260 (Revised), *The Auditor's*

Communications with Those Charged With Governance, which was issued by the International Auditing and Assurance Standards Board in March 2005.

SAS No. 61 currently establishes communication requirements for entities that either have an audit committee or have formally designated oversight of the financial reporting process to a group equivalent to an audit committee. The proposed SAS would broaden the applicability of the SAS to audits of the financial statements of all nonissuers, and establish a requirement for the auditor to communicate to those charged with governance certain significant matters related to the audit.

The proposed SAS uses the term *those charged with governance* to refer to those with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity, including overseeing the entity's financial reporting process and internal control over financial reporting. It uses the term *management* to refer to those who have executive responsibility for the conduct of the entity's operations, including preparation of the entity's financial statements.

The proposed SAS identifies matters to be communicated, many of which generally are consistent with existing requirements in SAS No. 61. However, the proposed SAS includes certain additional matters to be communicated, and provides additional guidance on the communication process.

In particular, the proposed SAS:

- Describes the principal purposes of communication with those charged with governance and stresses the importance of effective two-way communication.
- Requires the auditor to identify the appropriate person(s) in the entity's governance structure with whom communication regarding specified matters should occur. That person may vary depending on the nature of the matter to be communicated.
- Recognizes the diversity in governance structures among entities (including the existence of audit committees or other subgroups charged with governance) and encourages the use of professional judgment in deciding with whom to communicate particular matters.
- Recognizes the unique considerations for communicating with those charged with governance if all members of that group are involved in managing the entity, which may be the case in some small entities.
- Adds requirements to communicate (1) an overview of the planned scope and timing of the audit, and (2) the representations the auditor will be requesting from management.
- Provides additional guidance on the communication process, including the form and timing of communication. Significant findings from the audit must be communicated in writing, while other communications may be oral or in writing,
- Requires the auditor to evaluate the adequacy of the two-way communication between the auditor and those charged with governance.
- Establishes a requirement to document the significant matters about which communication with those charged with governance has occurred.

In addition to the proposed SAS, the exposure draft includes a proposed amendment to SAS No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AU

sec. 341), as amended. The proposed amendment requires the auditor to communicate to those charged with governance events or conditions that cause the auditor to conclude that there is substantial doubt about the entity's ability to continue as a going concern, as well as management's plans for addressing such events or conditions.

The exposure draft will be released in early March 2006 and will be available on the AICPA web site: <http://www.aicpa.org/members/div/auditstd/technic.htm>. The comment period for this exposure draft ends on May 31, 2006.

Panel Discusses How Audit Committees Can Address Risk of Fraud

by Michael P. Glynn

On January 31, 2006, the AICPA presented a program at the Princeton Club in New York City entitled "Fraud...Can Audit Committees Really Make a Difference?" The program was aimed at audit committee members, internal auditors, general counsel, members of boards of directors, and management of public and nonpublic entities.

A panel of experts addressed topics such as how management can perpetrate fraud by overriding internal control, the responsibilities of an audit committee regarding fraud, actions an audit committee can take to address the risk of management override of internal control, the limitations of internal control, and what should happen after an audit committee discovers fraud. The panelists took questions from the audience and conducted a free flowing and open discussion. The following individuals comprised the panel:

- Toby J.F. Bishop - Former president and chief executive officer of the Association of Certified Fraud Examiners
- Dennis H. Chookaszian - Chair of the executive committee of CNA Financial Corporation, member of the ASB's Fraud Task Force, and member of several audit committees and boards of directors
- Ronald L. Durkin - KPMG's national partner in charge of the firm's fraud and misconduct investigations group
- George P. Fritz - Member of the ASB and retired audit partner, PricewaterhouseCoopers LLP
- Dan Goldwasser - Member of the ASB; partner in the law firm, Vedder, Price, Kaufman, & Kammholz, P.C.; and member of several audit committees and boards of directors
- David L. Landsittel - Former chair of the ASB, chair of the ASB's Fraud Task Force; retired audit partner, Arthur Andersen LLP; and member of several audit committees and boards of directors
- Greg Libertiny - Has served in a variety of roles at companies in the global telecommunications industry including RCA, General Electric, MCI, and WorldCom.
- David A. Richards - President of the Institute of Internal Auditors

- Thomas M. Stemplar - Retired audit partner, Arthur Andersen LLP; author of publications on best practices for audit committees; and member of several audit committees and boards of directors

The event included an informative luncheon presentation by Nancy Temple, of counsel to Freeman, Freeman & Salzman, P.C. in Chicago, and former in-house counsel at Arthur Andersen LLP. Ms. Temple discussed issues facing auditors with regard to their relationship with audit committees based on her experience representing accounting firms.

The event was based on the content in the AICPA publications, *Management Override of Internal Controls: The Achilles' Heel of Fraud Prevention*, and *Audit Committee Toolkit*. These publications and other resources for audit committee members are available in the AICPA's Audit Committee Resource Center at the following AICPA web page: <http://www.aicpa.org/audcommctr/homepage.htm>

During the course of the day, the panelists hammered home the point that the risk of fraud is present in every entity. The panelists also stressed that fraud prevention and detection is a collaborative effort of the audit committee, the entity's internal auditors, the independent auditors, and management. Entities should establish an information feedback system that encourages the free and open exchange of information among these parties. The panelists also discussed the following questions that audit committee members should consider asking the independent auditors:

- What fraud risks are the independent auditors addressing through audit procedures?
- What other matters were discussed during the audit team's brainstorming session on fraud risk?
- What were the results of the independent auditors' inquiries of management about fraud? Did those inquiries precipitate anything that heightened the independent auditors' professional skepticism?
- What were the results of audit procedures designed to address the risk of management override of internal control?

The panelists reminded the participants that in an audit of financial statements, the auditor gives extensive consideration to the risk of material misstatement of the financial statements due to fraud. Accordingly, the audit committee should capitalize on the knowledge that the independent auditors may have gained during the audit.

A video of the event will soon be available at the Audit Committee Resource Center.

Three New Members of the ASB

by Judith M. Sherinsky

In October 2005, Lynford Graham, William F. Messier, and Michael T. Umscheid completed their terms as members of the Auditing Standards Board (ASB). The AICPA is extremely grateful to them for their contributions to the work of the ASB and is pleased that they are continuing to serve as members of ASB task forces and other AICPA committees. The ASB

welcomes its three new members, Robert D. Dohrer, Patricia P. Piteo, and Douglas F. Prawitt. Following is some information about the new ASB members.

Robert D. Dohrer is a partner in the national office of audit and accounting of McGladrey & Pullen, LLP. He serves as the regional coordinator of audit and accounting for the firm's mid-Atlantic economic unit. As regional coordinator, he is responsible for the quality control aspects of the firm's audit and accounting practice in this economic unit. As a partner in the national office of audit and accounting, Bob specializes in the firm's audit methodology. In addition, he leads the firm's internal control specialists and is responsible for audit sampling applications. Bob provides guidance to the firm on the use of technology to increase the efficiency and effectiveness of the audit process and also develops educational materials. Prior to joining the national office in July 1996, Bob served a broad range of clients, including public companies, with emphasis on the manufacturing industry. Bob has a total of sixteen years of experience in public accounting, all with McGladrey & Pullen, LLP. He is a member of the AICPA task forces working on the Internal Control Audit Guide and the Risk Assessment Audit Guide, and is a member of the AICPA Quality Control Task Force. Bob is a member of the AICPA and the Minnesota Society of CPAs. He graduated from the University of South Dakota with a master of professional accountancy degree and from Black Hills State University with a bachelor of science degree in accounting. Bob lives in Eden Prairie, MN with his wife, Linda, and their three daughters, ages 17, 15, and 11.

Patricia P. Piteo is a partner in the accounting and auditing services department of Cohen & Company, Ltd. and Cohen McCurdy, Ltd., and serves as co-technical director of both firms. Her duties include quality control and technical reviews; supervising and planning audit and review engagements; and working on special projects for clients, including litigation support, accounting system reviews, internal control reviews, and acquisition reviews. She also is active in training and staff development. In addition to having significant experience with manufacturing, trucking, and investment company clients, Pat is a lead partner in providing auditing and consulting services to the firm's not-for-profit and government clients. Pat is a member of the Government Finance Officer's Association, the Ohio Society of CPAs, and the American Institute of CPAs. She has served on the AICPA Private Companies Practice Section (PCPS) Technical Issues Committee and the Task Force to Study Financial Reporting for Private Companies. She serves on the Accounting Advisory Council to Kent State University, the Financial Advisory Board to the Sisters of Humility of Mary, and the Audit and Corporate Responsibility Board for HM Health Services. Pat is a 1975 graduate of Bowling Green State University. She lives with her husband in Kent, Ohio; their sons Ted and Brian are in law school and college, respectively.

Douglas F. Prawitt is a professor of accountancy at Brigham Young University (BYU). He received his BS and MAcc degrees at BYU and his Ph.D. at the University of Arizona, prior to which he worked as an accountant and auditor. He teaches financial-statement auditing and assurance-services courses in the undergraduate and graduate accounting programs at BYU, as well as accounting courses and effective-managerial-decision making courses in BYU's Executive MBA program. Doug consults regularly with large accounting firms and other professional organizations. He has worked closely with the Committee of Sponsoring Organizations (COSO) over the past five years, serving on two task forces for that organization. Professor Prawitt's research, which focuses on the judgment and decision making of financial statement auditors, has been published in several of the top accounting research journals, including *The Accounting Review* and *Auditing: A Journal of Practice & Theory*. He also has published several award-winning articles in prominent practitioner journals, including the *Journal of Accountancy* and *Internal Auditor*. He was a member of the AICPA research team that studied the effectiveness of SAS No. 82, *Consideration of Fraud in a Financial Statement Audit*.

Doug has coauthored several books and monographs, including *Auditing & Assurance Services: A Systematic Approach*; *Independence & Objectivity: A Framework for Internal Auditors*; *eBusiness: Principles and Strategies for Accountants*; and the Institute of Internal Auditors monograph, *Research Opportunities in Internal Auditing*. Doug and his wife Meryll have six children—two boys and four girls. The oldest is 19 and the youngest is a 3-year-old little girl adopted from the Marshall Islands a little over two years ago.

Highlights of Technical Activities

The Auditing Standards Board (ASB) performs its work through task forces composed of members of the ASB and others with technical expertise in the subject matter of the projects. The findings of these task forces periodically are presented to the members of the ASB at public meetings for their review and discussion. Highlights of matters addressed by the ASB are available at: <http://www.aicpa.org/members/div/auditstd/calendar/asbmtghlts.htm>.

Task Forces of the ASB

Following are the current task forces of the ASB and brief summaries of their objectives and recent activities.

Amendments to SAS No. 69 Task Force (Staff Liaison: Sharon Walker). At its July 2005 meeting, the ASB voted to issue a final SAS, subject to the Financial Accounting Standards Board's (FASB's) deliberations on its related project, that removes the GAAP hierarchy for nongovernmental entities from SAS No. 69, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles" (AU sec. 411). The change was made in response to the issuance, in April 2005, of the FASB's exposure draft of a proposed Statement of Financial Accounting Standards (SFAS) entitled "The Hierarchy of Generally Accepted Accounting Principles," which (1) incorporates the GAAP hierarchy for nongovernmental entities into the FASB's accounting literature, and (2) clarifies that the FASB is responsible for identifying the sources of accounting principles and the framework for selecting the principles to be used in the preparation of nongovernmental-entity financial statements presented in conformity with GAAP. The ASB will issue its final SAS coincidentally with the FASB's and PCAOB's issuance of their final standards.

Auditing Accounting Estimates Task Force (Staff Liaison: Hiram Hasty; Task Force Chair: Harold Monk Jr.). The task force is revising SAS No. 57, *Auditing Accounting Estimates* (AU sec. 342), to reflect aspects of the IAASB's December 2004 exposure draft, *Auditing Accounting Estimates and Related Disclosures (Other than Those Involving Fair Value Measurements and Disclosures)*. That exposure draft proposes revisions to ISA 540, *Audit of Accounting Estimates*. In developing an exposure draft, the task force will monitor the IAASB's deliberations and drafts. At the April 2006 ASB meeting, the task force will present a draft of a revision of SAS No. 57.

Auditing Related Party Transactions Task Force (Staff Liaison: Michael P. Glynn; Task Force Chair: George P. Fritz). The task force plans to revise SAS No. 45, *Related Parties*, (AU sec. 334) to achieve convergence with the related ISA that the IAASB is developing. In December 2005, the IAASB issued an exposure draft entitled *Related Parties* that would revise ISA 550, of the same title. The exposure draft is available at the following web site:

<http://www.ifac.org/Guidance/EXD-Details.php?EDID=0052>. The exposure period ends on April 30, 2006. The task force is monitoring the IAASB's progress on this issue.

Audit Issues Task Force (Staff Liaison: Sharon Walker; Task Force Chair: John A. Fogarty). This task force (1) oversees the ASB's planning process, (2) evaluates technical issues raised by various constituencies and determines their appropriate disposition, including referral to an ASB task force or development of an interpretation or other guidance, (3) addresses emerging audit and attestation practice issues, (4) provides advice on ASB task force objectives and composition, and monitors the progress of task forces, and (5) assists the chair of the ASB and the Audit and Attest Standards staff in carrying out their functions, including liaising with other groups. The AITF will hold its next meeting on February 23, 2006 in New York, NY.

Auditors' Reports Task Force (Staff Liaison: Sharon Walker; Task Force Chair: Harold L. Monk). This task force is revising SAS No 58, *Reports on Audited Financial Statements* (AU sec. 508), in light of the IAASB's recently exposed ISA, *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements*, and PCAOB Auditing Standard No. 1, *References in Auditors' Reports to the Standards of the PCAOB*. The ASB believes that it is appropriate and timely to revisit the required reporting elements and the language in the auditor's report for audits of nonissuers. The ASB further believes that clarifying certain aspects of the report will help to narrow the expectation gap. The task force is undertaking research, and the project is on hold pending the outcome of that research.

Communications Task Force (Staff Liaison: Ahava Goldman; Task Force Chair: Daniel D. Montgomery). The task force is revising SAS No. 61, *Communication with Audit Committees*, (AU sec. 380) to incorporate elements of proposed ISA 260, *The Auditor's Communication with Those Charged with Governance*, issued by the IAASB. The ASB, at its January 2006 meeting, voted to issue an exposure draft of a proposed SAS, *The Auditor's Communication With Those Charged With Governance*. For additional information about this project, see the article "Proposed SAS on Communication With Those Charged with Governance," on page 3.

Group Audits Task Force (Staff Liaison: Ahava Goldman; Task Force Chair: Diane M. Rubin). The task force is considering revisions to AU Section 543, *Part of Audit Performed by Other Independent Auditors*, to achieve convergence with a proposed revision of ISA 600, *The Audit of Group Financial Statements*. The exposure draft, which was issued by the IAASB on March 22, 2005, is entitled *The Work of Related Auditors and Other Auditors in the Audit of Group Financial Statements*, and is available at <http://www.ifac.org/Guidance/EXD-Details.php?EDID=0041>. The task force will closely monitor the IAASB's progress on this issue.

Internal Control Task Force (Staff Liaison: Judith M. Sherinsky; Task Force Chair: Michael T. Umscheid). On September 1, 2005, the ASB issued an exposure draft (ED) of a proposed SAS that would supersede SAS No. 60, *Communication of Internal Control Related Matters Noted in an Audit* (AU sec. 325). The ED:

- Incorporates the definitions of the terms *control deficiency*, *significant deficiency*, and *material weakness* used in Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*.
- Requires the auditor to communicate significant deficiencies and material weaknesses to management and those charged with governance.
- Requires that the communication be in writing.

At its January 2006 meeting, the ASB reviewed a draft of the proposed SAS that had been revised to reflect certain recommendations in comment letters on the ED. The ASB requested that additional changes be made to the document and that a revised draft be prepared for review at the April 2006 ASB meeting, at which time the ASB expects to vote on whether the document should be issued as a final SAS. The ED is available at the following AICPA web site http://www.aicpa.org/download/auditstd/2004_0928ASBHighlights.pdf

The task force also is revising, Chapter 5, *Reporting on an Entity's Internal Control Over Financial Reporting*, (AT 501) of Statement on Standards for Attestation Engagements (SSAE) No. 10, and has issued an exposure draft of a proposed revision. The ASB will discuss issues raised in comment letters at its April 2006 meeting. For additional information on the ED see the article, "ED Revises Attestation Standard for Reporting on Internal Control," on page 1.

International Auditing Standards Subcommittee (Staff Liaison: Sharon Walker; Subcommittee Chair: Susan S. Jones). The objective of this subcommittee is to support the development of international auditing standards. Subcommittee activities include providing technical advice and support to the AICPA representative and technical advisors to the IAASB, commenting on exposure drafts of international assurance standards, participating in and identifying U.S. volunteer participants for international standard-setting projects, identifying opportunities for establishing joint standards with other standard setters, identifying international issues that affect auditing and attestation standards and practices, and assisting the ASB and other AICPA committees in developing and implementing AICPA international strategies.

Investment Performance Standards Task Force (Staff Liaison: Ahava Goldman; Task Force Chair: Peter McNamara). The task force is revising Statement of Position (SOP) 01-4, *Reporting Pursuant to the Association for Investment Management and Research Performance Presentation Standards* (AIMR PPS), as a result of the recent convergence of the AIMR-PPS with the Global Investment Performance Standards, which are issued by the CFA Institute, an international nonprofit organization of investment practitioners and educators. The task force expects the SOP to be issued in March 2006.

Management Representations Task Force (Staff Liaison: Ahava Goldman; Task Force Chair: Keith O. Newton). The task force is considering revisions to SAS No. 85, *Management Representations* (AU sec. 333) based on the IAASB's project to revise ISA 580, *Management Representations*. The task force is monitoring the IAASB's discussions of this issue.

Quality Control Standards Task Force (Staff Liaison: Ahava Goldman; Task Force Chair: David Brumeloe). The task force is considering revisions to Statements on Quality Control Standards related to the IAASB's International Standard on Quality Control No. 1, *Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Service Engagements*. The task force will present a draft of a proposed Statement on Quality Control Standards for discussion at the April 2006 ASB meeting.

SAS No. 74 Task Force (Staff Liaison: Ahava Goldman; Task Force Chair: George Rippey). The task force is revising SAS 74, *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance*, (AU sec. 801) to reflect changes in the government auditing environment and other conforming changes.

Using the Work of a Specialist Task Force (Staff Liaison: Hiram Hasty; Task Force Chair: Michael T. Umscheid). The objective of the task force is to revise SAS No. 73, *Using the Work of a Specialist*, and replace it with two new standards. One of the proposed standards, *Using an Outside Specialist to Assist in the Audit*, addresses situations in which an auditor engages an outside (non-firm) specialist to obtain specialized skills or knowledge needed in the audit, but

not available on the engagement team. The other proposed standard, *Using the Work of Management's Nonemployee Specialist*, focuses on situations in which an auditor uses as audit evidence the work product of a nonemployee specialist hired by management.

At its December 2004 meeting, the IAASB added to its agenda a project to revise ISA 620, *Using the Work of an Expert*. At its February 1-3, 2005 meeting, the ASB approved the submission of a recommendation to the IAASB consisting of the two proposed SASs developed by the task force. The task force will monitor the progress of the IAASB's standard and consider the IAASB's deliberations and drafts in developing its exposure draft.

Other Activities

Accounting and Review Services Committee (ARSC) (Staff Liaison: Michael Glynn; Committee Chair: Thomas A. Ratcliffe). The ARSC is the senior technical committee of the AICPA designated to issue pronouncements in connection with the unaudited financial statements or other unaudited financial information of nonpublic entities. The charge of the ARSC is to develop and communicate, on a continuing basis, comprehensive performance and reporting standards as well as practice guidance that enable practitioners to provide high quality, objective, compilation and review services that serve the profession, clients, and the general public. The ARSC accomplishes this objective by developing compilation and review standards, timely responding to the need for guidance, and clearly communicating such guidance to the profession and users of financial statements. During the fourth quarter of 2005, the ARSC issued a survey entitled "Need for Independence in Compilation Engagements" that is currently available at <http://websurveyor.net/wsb.dli/20058/ARSCSurvey.htm>. The survey will remain live on the Audit and Attest Standards Team's web page until May 19, 2006. The ARSC will meet on May 30-31, 2006 at the New York office of the AICPA, on September 18-19, 2006 in Chicago, and on November 20-21, 2006 at the New York office of the AICPA. To view highlights of past and current ARSC meetings, please see the following AICPA web site: <http://www.aicpa.org/members/div/auditstd/calendar/arscmtghlts.htm>.

Anti-Fraud Task Force (Staff Liaison: Michael P. Glynn; Task Force Chair: Ronald L. Durkin). The Anti-Fraud Task Force is charged with further developing the specificity of criteria for management anti-fraud programs and controls, as introduced in the document, *Management Antifraud Programs and Controls: Guidance to Help Prevent, Deter, and Detect Fraud*, issued jointly by several organizations, including the AICPA. The task force is currently considering its next project.

Auditing Standards Committee of the American Accounting Association (AAA) (Chair: Bob Allen, University of Utah; ASB/AICPA Liaisons to the Committee: Douglas Prawitt and Michael P. Glynn). The Auditing Standards Committee of the AAA is charged with fostering interaction between the AAA's Auditing Section and auditing standard-setting bodies such as the AICPA's ASB. The ASB supports strengthening its relationship with the academic community as well as increasing the community's participation in the standard-setting process.

International Auditing and Assurance Standards Board (IAASB) (U.S. Member: John A. Fogarty; U.S. Technical Advisor: Sharon Walker). The IAASB met in December 2005 in Cape Town, South Africa. At that meeting, the IAASB approved for exposure, "Proposed ISA 550 (Revised), *Related Parties*." The due date for comments on the exposure draft is April 30, 2006. Copies of the International Federation of Accountants' final auditing, assurance, related services, and quality control standards; exposure drafts outstanding; and information about

attending IAASB meetings, which are open to the public, can be found at: <http://www.ifac.org/>. The next meeting of the IAASB will be held March 6-10, 2006 in Hong Kong.

Professional Issues Task Force (PITF) (Staff Liaison: Michael P. Glynn; Task Force Chair: Charles J. McElroy). The PITF is responsible for accumulating and considering practice issues that appear to present concerns for practitioners performing audits and reviews of financial statements or agreed-upon procedures. The PITF also is responsible for disseminating information or guidance, as appropriate, in the form of practice alerts. Practice alerts are intended to provide practitioners with information that may help them improve the effectiveness and efficiency of their engagements and practices, and are based on existing professional literature, the experience of the members of the PITF, and information provided by AICPA member firms to their own professional staffs. The task force also refers matters that may require reconsideration of existing standards to the appropriate standard-setting body. All alerts that have not been superseded are published annually in the AICPA Technical Practice Aids and are also available at http://www.aicpa.org/members/div/auditstd/pract_alerts.asp. The PITF is currently working on a practice alert that will provide guidance on auditing and other considerations related to electronic information.

Auditing Standards Board Agenda

Codes: DI—Discussion of issues, DD—Discussion of draft document, ED—Vote to ballot a document for exposure, EP—Exposure Period, CL—Discussion of comment letters, FI—Vote to ballot a document for final issuance, SU—Status Update.

Project	<u>ASB Meeting Date</u> April 25-27, 2006 Atlanta, GA
Communication of Internal Control Related Matters	FI
Estimates	DD
Format of SASs	DI
Management Representations	DI
Quality Control	ED
Related Parties	DD
Reporting on Internal Control (AT 501)	CL

To view a projected timetable of ASB projects through 2007, see the following AICPA web site:
http://www.aicpa.org/members/div/auditstd/asb_project_timetable.htm

Recently Issued and Approved Documents

Statements on Auditing Standards (SASs)		
Title (Product Number)	Issue Date	Effective Date
SAS Nos. 104 through 111 comprise the "risk assessment standards." A compilation of those standards (product no. 060704) will be available in March 2006.		
SAS No. 111, Amendment to Statement on Auditing Standards No. 39, <i>Audit Sampling</i>	March 2006	Effective for audits of financial statements for periods beginning on or after December 15, 2006.
SAS No. 110, <i>Performing Audit Procedures in Response to Assessed Risk and Evaluating the Audit Evidence Obtained</i>	March 2006	Effective for audits of financial statements for periods beginning on or after December 15, 2006.
SAS No. 109, <i>Understanding the Entity and Its Environment and Assessing the Risk of Material Misstatement</i>	March 2006	Effective for audits of financial statements for periods beginning on or after December 15, 2006.
SAS No. 108, <i>Planning and Supervision</i>	March 2006	Effective for audits of financial statements for periods beginning on or after December 15, 2006.

SAS No. 107, <i>Audit Risk and Materiality in Conducting an Audit</i>	March 2006	Effective for audits of financial statements for periods beginning on or after December 15, 2006.
SAS No. 106, <i>Audit Evidence</i>	March 2006	Effective for audits of financial statements for periods beginning on or after December 15, 2006.
SAS No. 105, Amendment to Statement on Auditing Standards No. 95, <i>Generally Accepted Auditing Standards</i>	March 2006	Effective for audits of financial statements for periods beginning on or after December 15, 2006.
SAS No. 104, Amendment to Statement on Auditing Standards No. 1, <i>Codification of Auditing Standards and Procedures</i> "Due Professional Care in the Performance of Work"	March 2006	Effective for audits of financial statements for periods beginning on or after December 15, 2006.
SAS No. 103, <i>Audit Documentation</i> (060706)	December 2005	Effective for audits of financial statements for periods ending on or after December 15, 2006.
SAS No. 102, <i>Defining Professional Requirements in Statements on Auditing Standards</i> (060705)	December 2005	Effective upon issuance.
Statements on Standards for Attestation Engagements (SSAEs)		
Statement on Standards for Attestation Engagements (SSAE) No. 13, <i>Defining Professional Requirements in Statements on Standards for Attestation Engagements</i> (023032)	December 2005	Effective upon issuance.

Interpretations of Statements on Auditing Standards (SASs)	
Title	Issuance Date¹
Interpretation of SAS No. 101, <i>Auditing Fair Value Measurements and Disclosures</i> Interpretation No. 1, "Auditing Investments in Securities Where a Readily Determinable Fair Value Does Not Exist" (AU sec. 9101.01-04)	August 2005
Interpretation of SAS No. 92, <i>Auditing Derivative Instruments, Hedging Activities, and Investments in Securities</i> Interpretation No. 1, "Auditing Interests in Trusts Held by a Third-Party Trustee and Reported at Fair Value" (AU sec. 9332. 01-.04)	August 2005

¹ The issuance date of interpretations of Statements on Auditing Standards and interpretations of Statements on Standards for Accounting and Review Services is the first date the document is made widely available to the public. In most cases, this will be the date the document is posted to the AICPA web site: www.aicpa.org. There may be cases in which the document is first made widely available in hard copy, or published in the *Journal of Accountancy*. In those cases, the publication date of the document is considered to be the date of publication of the hard copy, or the date of publication in the *Journal of Accountancy*.

Statements on Standards for Accounting and Review Services (SSARs)		
Title (Product Number)	Issue Date	Effective Date
SSARS No. 14, <i>Compilation of Pro Forma Financial Information</i> (060652)	July 2005	Effective for engagements entered into after December 15, 2005. Early application is permitted.
SSARS No. 13, <i>Compilation of Specified Elements, Accounts, or Items of a Financial Statement</i> (060651)	July 2005	Effective for engagements entered into after December 15, 2005. Early application is permitted.
SSARS No. 12, <i>Omnibus Statement on Standards for Accounting and Review Services - 2005</i> (060650)	July 2005	<p>The Statement consists of three amendments to AR section 100 and one amendment to AR section 200.</p> <p>The following amendments are effective for engagements for periods ending after December 15, 2005. Early Application is permitted:</p> <ul style="list-style-type: none"> • The Accountant's Consideration of Fraud and Illegal Acts in a Compilation or Review Engagement • The Accountant's Consideration of Obtaining an Updating Representation Letter From Management • Restated Prior-Period Financial Statements <p>The following amendment is effective upon issuance:</p> <p>Restricting the Use of an Accountant's Compilation or Review Report</p>

Interpretations of Statements on Standards for Accounting and Review Services (SSARs)	
Title	Issuance Date ¹
Interpretation of SSARS No. 1, <i>Compilation and Review of Financial Statements</i>	August 2005
Interpretation No. 27, "Applicability of SSARSs to Reviews of Nonissuers Who Are Owned By or Controlled By an Issuer" (AR sec. 9100.104 -.108)	

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